1991 ANNUAL REPORT

FAMILY DOLLAR

The Neighborhood Discount Store

New interior store layout places increased emphasis on apparel.


BUDGET
STRETCHER
BUDGET
STRETCHER
$4.29
$21.00
TOYS
Rinso
BUDGET STRETCHER
FROM $10
BUDGET STRETCHER
FROM $5.00
BUDGET STRETCHER
Deck Oxfords
$6 $9
FROM $9.00

Company Profile

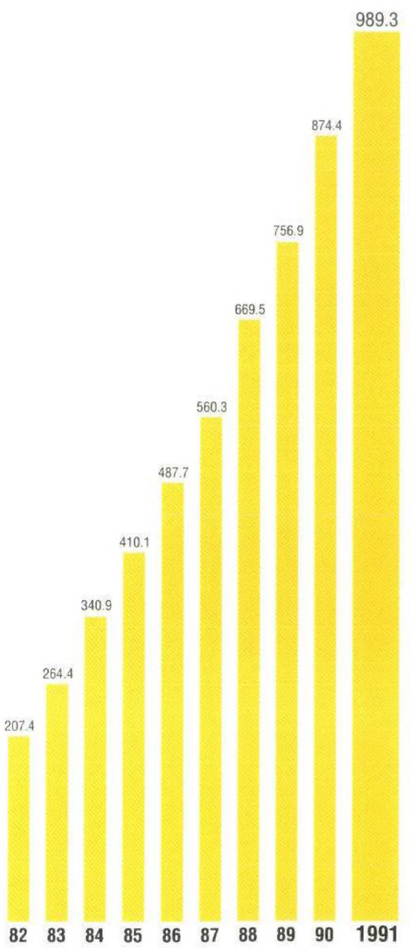
Family Dollar Stores, Inc. is one of the fastest growing discount store chains in the United States. During the last ten fiscal years, 1,304 new units, representing nearly 75% of the Company's stores, have been added to the chain. The merchandising concept responsible for this growth provides consumers with good values in low cost, basic merchandise for family and home needs. The merchandise is sold in a no-frills, low overhead, self-service environment on a cash-and-carry basis. Substantially all merchandise is priced at $17.99 or less.

Stores are located in a contiguous 29-state area ranging as far north as Wisconsin, east to Massachusetts, south to Florida and west to Texas. They generally range in size from 6,000 to 8,000 square feet and most are operated under leases. The relatively small store size permits the Company to open new stores in rural areas and small towns as well as in large urban centers. Within these markets, the stores are located in shopping centers or as freestanding buildings convenient to the Company's low and low-middle income customer base.

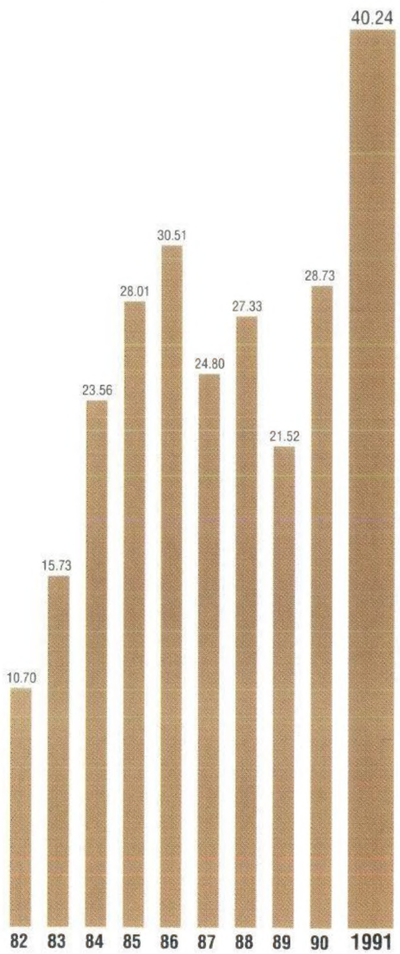
During the fiscal year ended August 31, 1991, 122 new stores were opened and 43 closed to bring the number of stores in operation at fiscal year-end to 1,759. By the end of the current fiscal year on August 31, 1992, Family Dollar expects to have approximately 1,879 stores in operation. Since the opening of the first Family Dollar store in 1959, the store expansion program has been financed entirely with internally generated funds, and the Company has no long-term indebtedness.

Family Dollar Stores, Inc. is headquartered in Matthews, North Carolina, just outside of Charlotte. The Company has been a publicly held corporation since 1970, and its Common Stock is listed on the New York Stock Exchange under the ticker symbol FDO.

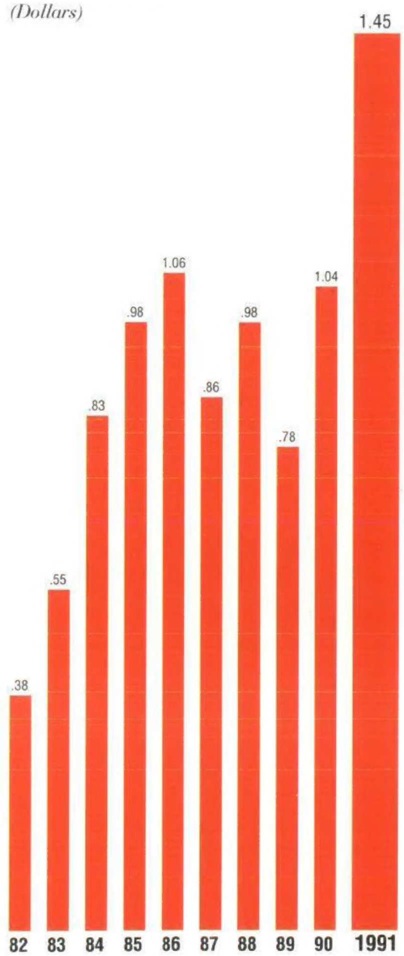
NET SALES
(Millions of Dollars)



NET INCOME
(Millions of Dollars)



NET INCOME PER SHARE
(Dollars)

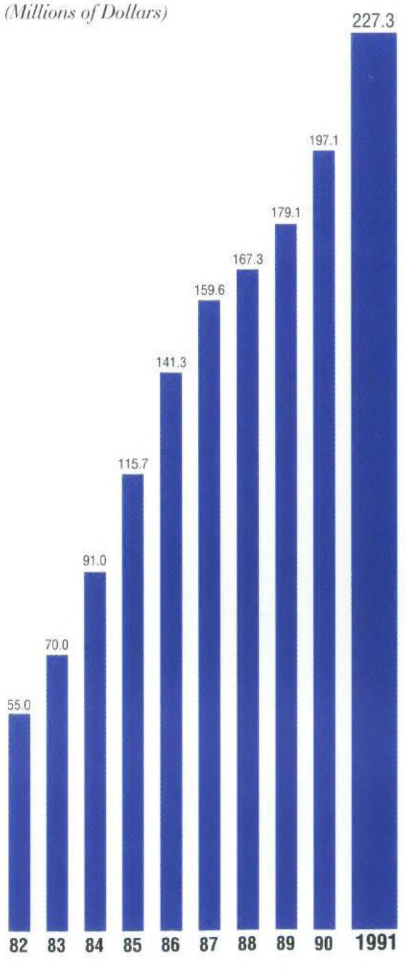


Financial Highlights

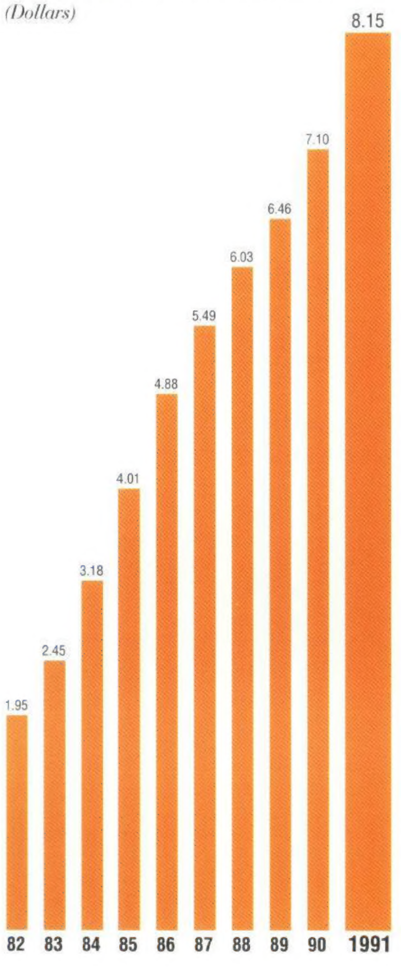
FAMILY DOLLAR STORES, INC. AND SUBSIDIARIES

Years Ended August 31,	1991	1990	Percentage Change
Net Sales	$989,345,265	$874,395,095	13.1%
Income Before Income Taxes	63,725,889	47,630,322	33.8
Income Taxes	23,484,031	18,897,177	24.3
Net Income	40,241,858	28,733,145	40.1
Net Income Per Common Share	$1.45	$1.04	39.4
Dividends Declared	$ 11,960,851	$ 10,819,248	10.6
Dividends Declared Per Common Share	$.43	$.39	10.3

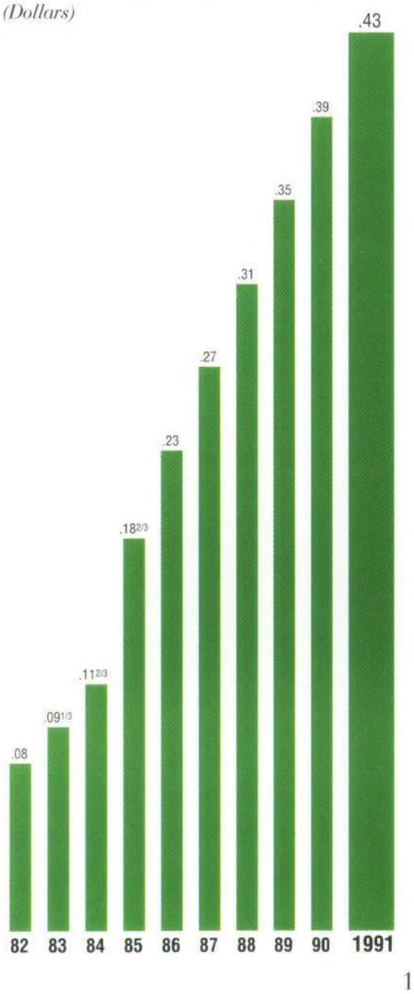
SHAREHOLDERS' EQUITY
(Millions of Dollars)



BOOK VALUE PER COMMON SHARE
(Dollars)



DIVIDENDS DECLARED PER COMMON SHARE
(Dollars)



Letter to Shareholders

Fiscal 1991 was a year of outstanding achievement for Family Dollar. During a period when many retailers struggled with a weak economy, Family Dollar recorded the highest sales and earnings in our Company's 32-year history. The fiscal 1991 operating results are particularly satisfying as they improve upon what was a strong performance in fiscal 1990.

Highlights

The achievements of the year ended August 31, 1991, include:

- Sales gains of 13%, including a 7.5% increase in existing store sales, above sales in fiscal 1990
- Net income increase of 40%, with a 39% increase in earnings per share of Common Stock, above net income and earnings per share in fiscal 1990
- Net return on sales of 4.1% and shareholders' return on average equity of 19.0%, with shareholders' equity exceeding the $200 million mark
- Increase in cash dividends declared per share of Common Stock of 10.3% above the dividends declared in fiscal 1990
- Net addition of 79 new stores, including the first stores in Nebraska, to increase the number of stores in operation at fiscal year-end to 1,759 in 28 states and the District of Columbia
- Strengthening of the Company's financial condition with a balance sheet that continues to be free of long-term indebtedness

"The strong sales performance, together with continued improvement in the gross profit margin, produced the earnings increase of 40% for fiscal 1991."

Fiscal 1991 Operating Results

Since the Company introduced an "everyday low price" policy in fiscal 1987, reducing prices on a wide variety of merchandise, our challenge has been to modify our merchandising strategy to achieve a satisfactory balance between sales volume and the return on those sales. The fiscal 1991 operating results provide further evidence that we are successfully meeting this challenge. Sales for the fiscal year ended August 31, 1991, were $989,345,265, or 13% above sales of $874,395,095 for fiscal 1990. Net income for fiscal 1991 was $40,241,858, or 40% above net income of $28,733,145 a year ago, and earnings per share increased to $1.45 for fiscal 1991 compared to $1.04 for fiscal 1990.

A key component of the sales increases in fiscal 1991 was the improved sales performances in existing stores. Sales in existing stores increased 7.5% in fiscal 1991, following a 7.7% increase in such sales in fiscal 1990. To maximize its sales, the Company has continued to emphasize keeping the stores in stock with basic and seasonal merchandise. Improved merchandise assortments and aggressive clearance promotions also produced additional sales in fiscal 1991 in apparel categories and in other seasonal merchandise.

This strong sales performance, together with continued improvement in the gross profit margin, produced the earnings increase of 40% for fiscal 1991. The earnings gain is particularly noteworthy as it follows an earnings increase of 34% for fiscal 1990. The gross profit margin improvement reflects the success of programs designed to raise the return on the Company's sales without adversely impacting sales volume. The opportunistic purchasing of merchandise from suppliers at closeout prices, higher sales of Family Dollar private label merchandise, the expansion of multi-zone pricing in which different prices are used in selected locations based on competition and other market factors, and adjustments in the merchandise mix to focus sales on higher margin goods all favorably impacted the gross profit margin.

Financial Condition

Family Dollar continues to strengthen its financial condition. In fiscal 1991, shareholders' equity exceeded the $200 million mark, increasing $30.2 million to $227.3 million, working capital increased $28.3 million to $136.2 million and total assets increased $44.2 million to $399.3 million.

At a time when many companies are burdened with heavy debt loads, Family Dollar's balance sheet remains free of any long-term debt. More than 1,300 stores have been added to the chain in the last ten fiscal years, and this aggressive expansion program has been accomplished without incurring any long-term debt. There also was no short-term debt outstanding at the end of fiscal 1991.

Dividend Growth

With Family Dollar's sound financial condition, the Board of Directors increased the quarterly cash dividend declared on the Common Stock for the fifteenth consecutive year. In fiscal 1991, cash dividends declared per share of Common Stock increased 10.3%, and the annual rate is now $.44 per share.

The Company's record of dividend increases has been recognized in the 1991 edition of Moody's *Handbook of Dividend Achievers*. Moody's compiles a list of companies that have increased their payment of cash dividends annually for at least ten consecutive calendar years. The companies are ranked by dividend growth rate over a ten-year period. For the period 1980-90, of more than 9,700 publicly held companies in Moody's equity data base, Family Dollar ranked fifteenth with an annual dividend growth rate during that period of 20.6%.

Store Expansion

Family Dollar's store expansion program continues to be a major contributor to the Company's growth in sales and earnings. During fiscal 1991, the Company opened 122 stores and closed 43 stores for a net increase of 79 stores in operation. Nebraska was added to the list of states in which we operate, and the largest number of stores were opened in New York (10), Pennsylvania (10), Texas (10) and Ohio (9). At fiscal year-end on August 31, 1991, 1,759 stores were operating in 28 states and the District of Columbia.

Fiscal 1992 Outlook

Fiscal 1992 will be a year of challenges and opportunities. The challenges are found in an economy that shows little evidence of recovery or of significant growth in consumer spending. The opportunities arise from Family Dollar's demonstrated ability to sustain its profitable growth in difficult economic times.

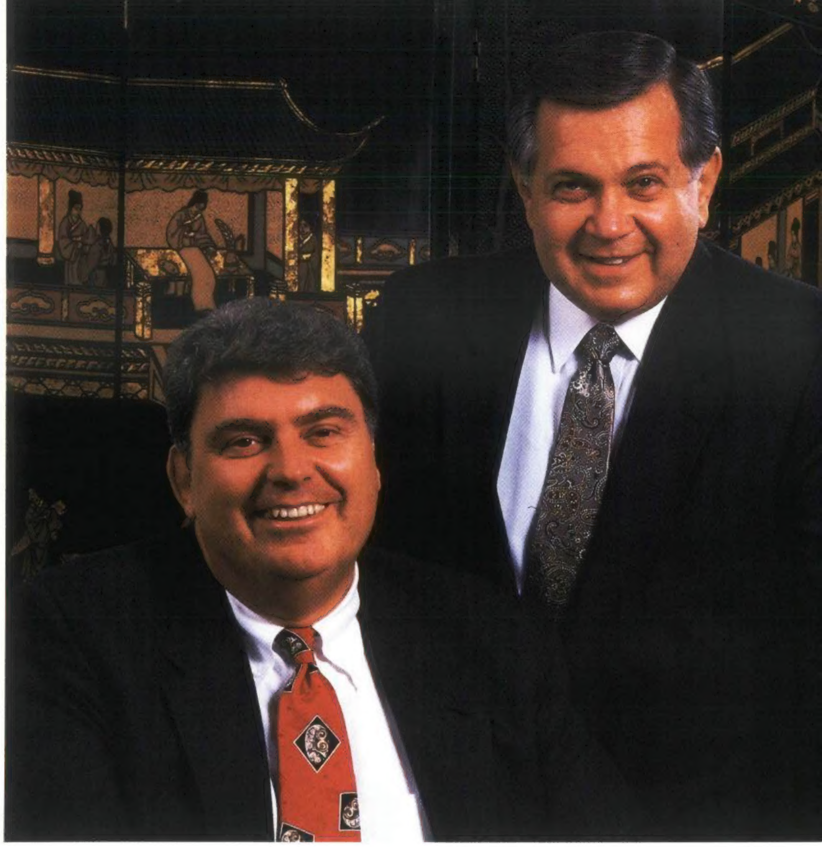
"By implementing programs such as the modified store format and the point-of-sale register information system, we build upon the solid foundation of our proven merchandising concept."

We begin with a proven merchandising concept that has more appeal to today's value-conscious consumer than ever before. The concept has incorporated new strategies from the "everyday low price" policy to the expanded Family Dollar private label program to the multi-zone pricing policy; but it remains basically the same as when the first Family Dollar store opened in 1959. We continue to operate relatively small self-service stores with no frills and low overhead, and sell good quality, low cost, basic merchandise for family and home needs, to low and low-middle income consumers on a cash-and-carry basis at reasonably modest prices. Through the implementation and refinement of this concept over more than 30 years, Family Dollar has secured a unique niche in the retail marketplace that continues to provide opportunities for the profitable growth of our Company.

As part of our efforts to realize these opportunities in fiscal 1992, Family Dollar again will pursue an aggressive expansion program. We currently expect to open approximately 160 stores and close up to approximately 40 stores, for a net addition of 120 stores. This would bring the number of stores in operation at August 31, 1992, to 1,879. Of course, these plans are subject to change depending on developments in the economy and other factors.

The continuing store expansion program places increasing demands on our distribution facilities. In fiscal 1992, we will complete the studies that have been undertaken to evaluate various options for additional distribution capacity and begin to implement plans to expand and to maximize the efficiency of our distribution system.

Our Company's plans for fiscal 1992 also include several exciting new programs that represent investments in Family Dollar's future. After completing an extensive testing period, we have started to install a point-of-sale register information system with scanners in our stores. Currently, there are approximately 500 stores operating with this system, and the installation in all stores is expected to be completed in approximately 18 months. This system will increase the productivity of store personnel and provide timely and accurate information of item sales movement to assist us in effectively merchandising the stores and controlling inventories.



Peter J. Hayes *Leon Levine*

Another program that holds great promise for fiscal 1992 and subsequent years is a modified interior store layout and merchandise presentation. All stores opening this year will operate in this modified format, and a limited number of existing stores also will be converted. The modified format places increased emphasis on apparel and other softline departments and is part of our efforts to modestly shift the merchandise mix in our stores to higher margin categories. By implementing programs such as the modified store format and the point-of-sale register information system, we build upon the solid foundation of our proven merchandising concept.

The outstanding operating results of fiscal 1991 are attributable to the talents, loyalty and commitment of more than 13,000 Family Dollar employees. As we enter fiscal 1992—a year in which we will exceed the $1 billion level in sales—we sincerely thank all employees for their dedicated efforts in building a company that is a leader in the retail industry. We also are grateful for the continued support of our shareholders and vendors.

Leon Levine

Leon Levine
Chairman of the Board
Chief Executive Officer

Peter J. Hayes

Peter J. Hayes
President
Chief Operating Officer

November 15, 1991

Merchandising

The merchandise selection includes clothing and shoes for the entire family, domestics, household products, health and beauty aids, housewares, toys, stationery, snack foods and automotive supplies.

During Family Dollar's 32 years of operations, retailers have introduced many new merchandising concepts. Some have been successful, but the greatest number have disappeared. Those retailers that have prospered generally have developed a niche in the marketplace that differentiates them from the competition. With the niche established, they have efficiently executed their strategies to emerge as a leader in their field. Family Dollar is such a retailer.

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The merchandising concept that has served Family Dollar so well has been to operate small self-service stores, with no frills and low overhead, and to sell good quality, low cost basic merchandise for family and home needs to low and low-middle income consumers on a cash-and-carry basis at reasonably modest prices. By implementing this concept and directing all aspects of our operations toward providing these targeted consumers with the best values in basic merchandise, Family Dollar has built a broad base of satisfied customers and created a unique niche in the marketplace.

Advertising circulars are mailed directly to customers' homes or inserted in newspapers generally twice each month.

An element of the merchandising concept that sets us apart is a maximum price policy. Substantially all merchandise currently is priced at $17.99 or less. This policy permits our buyers to concentrate Family Dollar's purchasing power on a limited number of items, and offers our customers a relatively broad selection of basic merchandise within a narrow range of price points. The Company's identity with our customers as the discount retailer with merchandise at the lowest price points is reinforced by this maximum price limit.

Family Dollar brand label merchandise offers good quality at substantially lower prices than nationally advertised brands.

ising concept will excess of $1 billion re than 1,800 stores, ar continues its le growth."

The small size of the stores is another key component of the concept that differentiates Family Dollar from much of the competition. With low cost, basic merchandise sold in a no-frills, self-service environment, in locations convenient to low and low-middle income consumers, the stores operate as neighborhood discount convenience stores. This merchandising concept will produce sales in excess of $1 billion this year from more than 1,800 stores, as Family Dollar continues its profitable growth.

Store Expansion

Family Dollar's store expansion program follows a time-tested formula for rapid and profitable growth. For more than 30 years, the Company has operated relatively small stores, typically ranging in size from 6,000 to 8,000 square feet. The size of the stores enables the Company to locate them in small towns and rural areas, as well as in low and low-middle income urban markets, without having to bypass any new trade areas. By this clustering of standardized stores, Family Dollar establishes a clear identity with our customers and realizes efficiencies in merchandise replenishment, advertising and supervisory controls.

The stores are typically freestanding or located in shopping centers with adequate parking facilities, and more than 90% of the stores are operated under leases. With this emphasis on leasing, the Company has been able to aggressively pursue the store expansion program and secure long-term rights to locations without incurring any long-term debt. The addition of stores one unit at a time, rather than through major acquisitions, also has permitted the Company to avoid the substantial capital expenditures usually associated with rapid expansion.

"Family Dollar's program follows a for rapid and pro

While these expansion strategies have been consistently followed, the Company also is opportunistic in taking advantage of changing real estate market conditions. In the difficult economic conditions of recent years, most of the new stores opened in existing, previously occupied buildings that

were converted to typical Family Dollar stores and leased on favorable rental terms. The Company's strong financial condition, with no long-term debt, will permit us to continue to take advantage of these opportunities.

During the fiscal year ended August 31, 1991, 122 stores opened and 43 stores closed for a net addition of 79 stores. In the current fiscal year, the pace of expansion will accelerate with approximately 160 stores expected to open, including the first stores in New England markets, and approximately 40 stores to close. By the end of the fiscal year on August 31, 1992, the Company expects to have 1,879 stores in operation. Proven expansion strategies and the opportunistic pursuit of new locations will continue to add profitable new stores to our growing Company.

store expansion time-tested formula fitable growth."

Customers

The typical Family Dollar customer is female, between the ages of 25 and 49, and shops for a family with a median annual income of less than $25,000.

Family Dollar has established a unique niche in the market-place by meeting the merchandise needs of our low and low-middle income customer base. Marketing surveys reveal that the typical Family Dollar customer is a female who shops for a family with a median annual income of less than $25,000, and in many cases under $15,000. Customers have told us that their main reason for shopping at Family Dollar is our low prices on good quality, basic merchandise. In the difficult economy of recent years, families have relied on Family Dollar more than ever to provide the values they must have to stretch their limited disposable incomes.

The Company's merchandising concept provides our customer base with good values in basic merchandise. The "everyday low price" policy gives customers competitive prices on nationally advertised brand merchandise. This merchandise is supplemented with Family Dollar brand label products that offer comparable quality at prices substantially below those of the advertised brands. Opportunistic purchases at discounted prices of first quality closeout merchandise and manufacturers'

"Family Dollar's low income customers our approach to m provides them with

overruns permit us to pass on added savings. Special values also are featured in advertising circulars mailed directly to targeted customers' homes or inserted in newspapers generally twice each month.

Family Dollar's low and low-middle income customers recognize that our approach to merchandising provides them with good values. The stores are small, self-service, cash-and-carry, standardized operations with no frills and low overhead. The location of the stores, merchandise selection and low price points all are focused on meeting our customers' needs. As other retailers continue to increase the size of their stores and sell more expensive lines of merchandise, Family Dollar offers a growing segment of the market a real alternative. By clearly identifying who our customers are and how we can best serve them, our Company has differentiated itself from the competition and become a leader in the discount store industry.

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good values."

Technology

Forklift-mounted data terminals collect, verify and report data to provide quality controls and increase productivity.

Technology plays an increasingly important role at Family Dollar in giving our Company a competitive edge in the marketplace. Our 750,000 square foot, automated Distribution Center in Matthews, North Carolina, incorporates some of the latest technological advances in materials handling. Merchandise for individual stores is picked from slot locations based on buyer-determined inventory reports and orders placed directly by store managers using electronic hand-held computers. More than 6.2 miles of conveyors carry the picked cases of merchandise to a central merge area. There the cases pass under a laser scanner which reads the bar code labels on each case at the rate of two per second. The scanner diverts each case to one of many shipping lanes, each of which has a telescoping extension directly into the trailer for rapid loading. Family Dollar's modern fleet of tractors and trailers, supplemented by common and contract carriers, then delivers the merchandise to each store on a weekly basis.

"Technology plays important role at giving our Company in the mar

Family Dollar's tractors are equipped with "Tripmaster" computers which monitor fleet operations and increase productivity by tracking fuel mileage, maintenance costs and scheduling.

The optical disk system is a cost-effective means of storing and retrieving computerized information.

Investments in technology also are being made at the store level. Some years ago, personal computers were installed in all stores to facilitate communications between the stores and the Corporate Office. The computers also represented the first step in developing a point-of-sale register information system. As of November 1991, point-of-sale registers with scanners had been installed in approximately 500 stores, and the installation in all stores is expected to be completed by the summer of 1993. This system will provide timely and accurate information of item sales movement which will assist us in effectively merchandising the stores and controlling inventories. The productivity of store personnel also will be increased by the elimination or reduction of such labor intensive tasks as the manual price ticketing of merchandise. As Family Dollar pursues its aggressive expansion plans, the point-of-sale register information system and other innovations in technology represent a sound investment in the Company's future.

Point-of-sale registers with scanners are being installed in the stores.

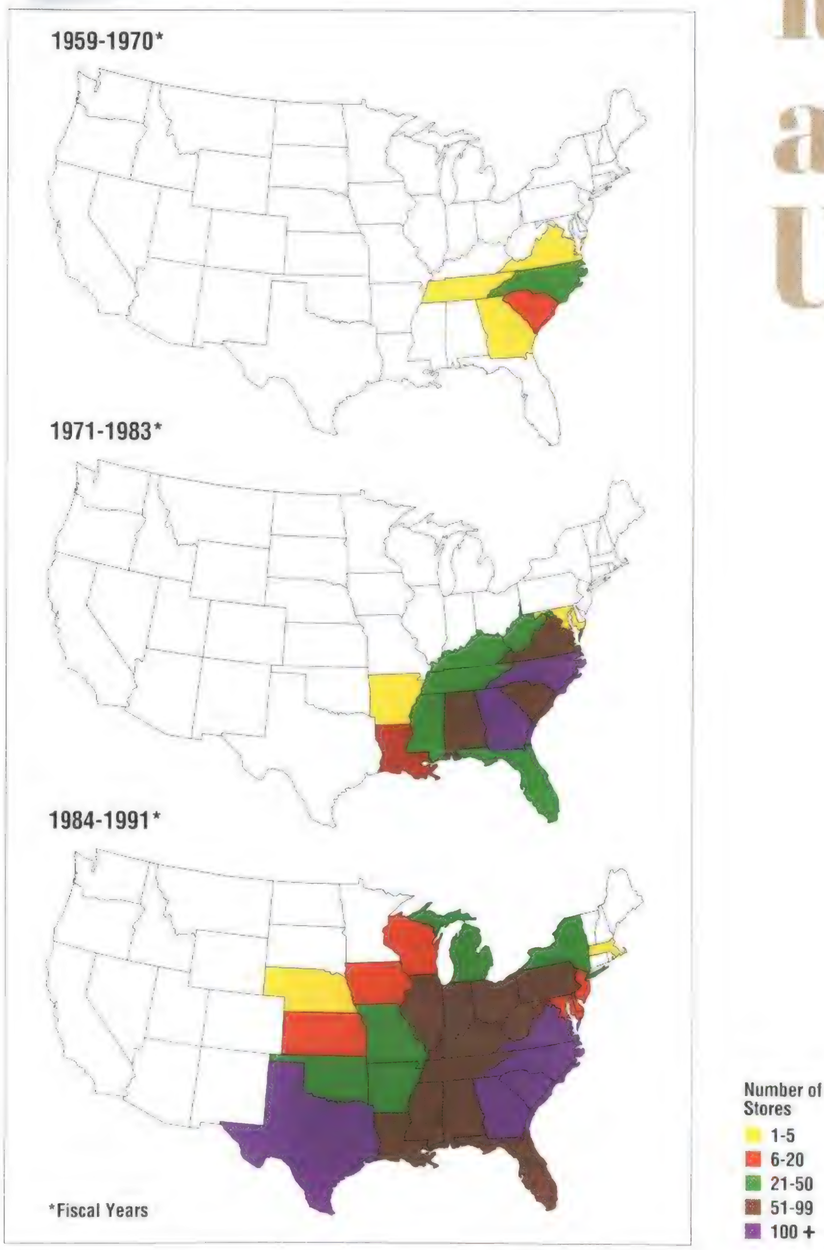
an increasingly Family Dollar in a competitive edge ketplace."

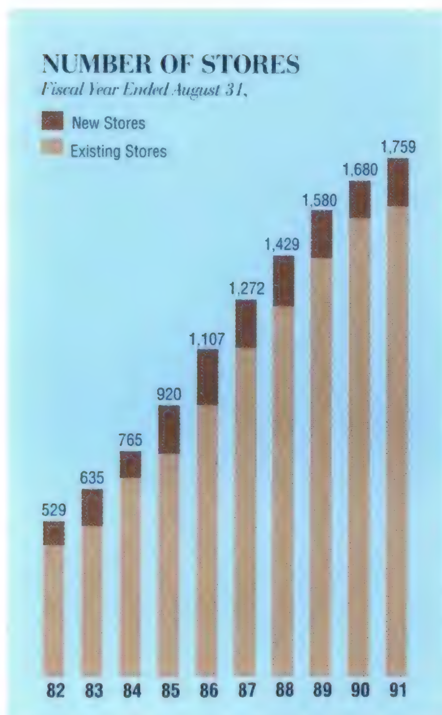
Personal computers in each store permit the daily interchange of important information between the stores and the Corporate Office.

Locations

Family Dollar has expanded rapidly from its base in North Carolina since the first store was opened in Charlotte in 1959. During the last ten fiscal years alone, 1,304 new stores, representing nearly 75% of the stores in operation, have been added to the chain. Store expansion will continue to play a major role in Family Dollar's profitable growth as the Company has great opportunities for expansion in its

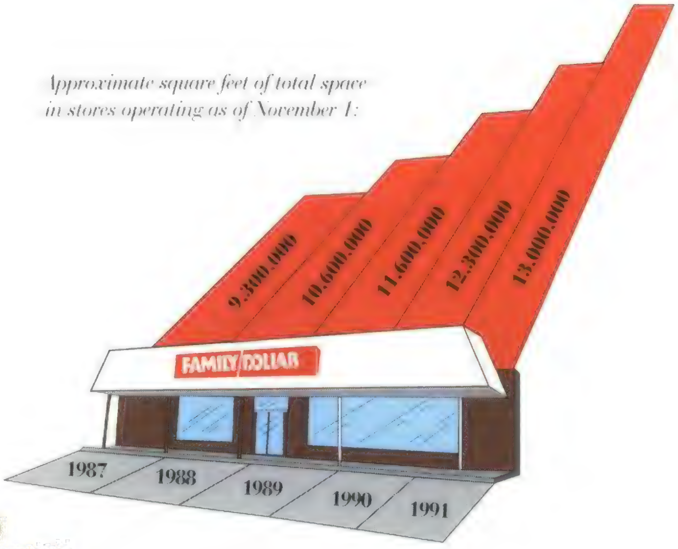
"The Company opportunities its existing 29 and in the rest United States."





existing 29-state territory and in the rest of the United States. Plans for fiscal 1992 are to open approximately 160 stores and close up to approximately 40 stores, to bring the number of stores in operation to 1,879 by August 31, 1992. Such plans are subject to change based on developments in the economy and other factors.

Approximate square feet of total space in stores operating as of November 1:



has great for expansion in -state territory of the

There were 1,773 stores in 29 states and the District of Columbia as of November 15, 1991.

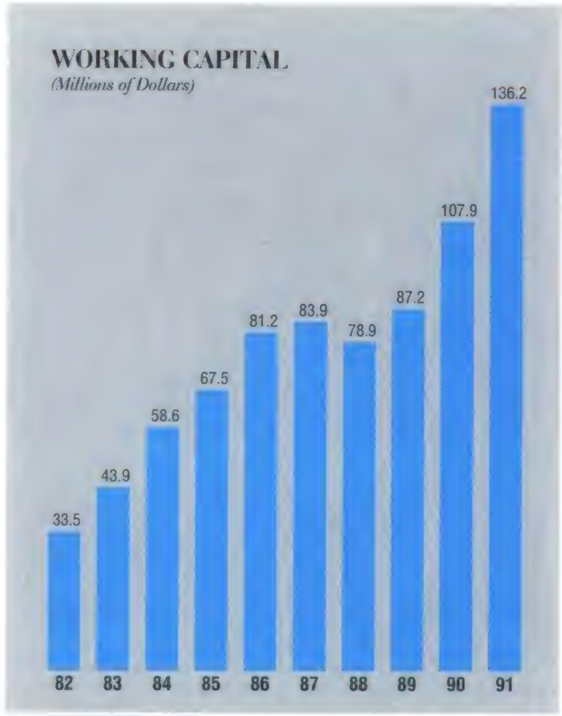
Management's Discussion and Analysis of Financial Condition and Results of Operations

Net Sales

Net sales increased approximately 13.1% ($114,950,000) in fiscal 1991 compared with fiscal 1990, and approximately 15.5% ($117,508,000) in fiscal 1990 compared with fiscal 1989. The sales increases in fiscal 1991 and fiscal 1990 were attributable to improved sales performances in existing stores and to the increase in the number of stores in operation.

Comparable store sales increased approximately 7.5% in fiscal 1991 and 7.7% in fiscal 1990, as compared with the respective prior years. The comparable store sales improvements in fiscal 1991 and fiscal 1990 resulted in part from improvement of store in-stock positions of basic and seasonal merchandise. In addition, fiscal 1990 sales gains in comparable stores resulted from more aggressive advertising and promotional programs, especially on consumable and other hardline merchandise. In fiscal 1991, improved merchandise assortments and aggressive clearance promotions resulted in sales improvements in apparel categories and other seasonal merchandise. While the weak economic conditions that prevailed during fiscal 1991 and fiscal 1990 generally adversely impacted retailers' sales, such impact on the Company's sales may have been offset by additional sales in the Company's stores to customers pursuing discount store values in such an economy.

During fiscal 1991, the Company opened 122 stores and closed 43 stores for a net addition of 79 stores, compared with the opening of 122 stores and closing of 22 stores for a net addition of 100 stores



Summary of Selected Financial Data

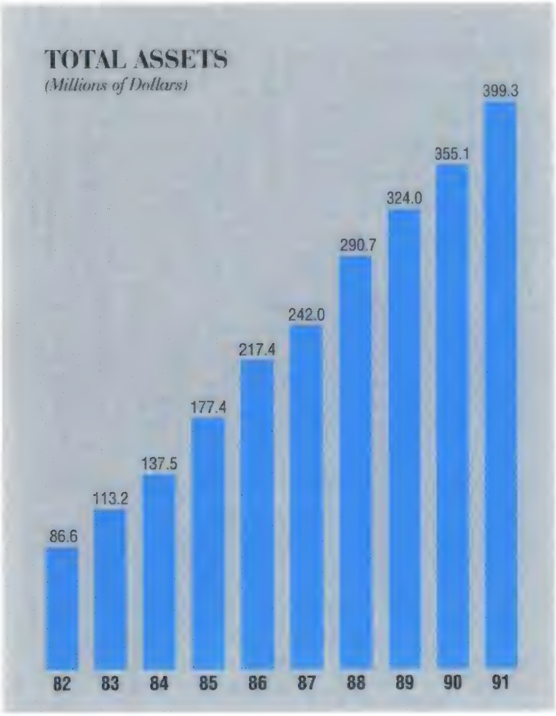
Years Ended August 31,	1991	1990	1989
Net sales	**$989,345,265**	$874,395,095	$756,886,681
Cost of sales and operating expenses	**925,619,376**	826,764,773	721,799,222
Income before income taxes	**63,725,889**	47,630,322	35,087,459
Income taxes	**23,484,031**	18,897,177	13,570,222
Net income	**40,241,858**	28,733,145	21,517,237
Net income per common share	**$1.45**	$1.04	$.78
Dividends declared	**$ 11,960,851**	$ 10,819,248	$ 9,709,104
Dividends declared per common share	**$.43**	$.39	$.35
Total assets	**$399,271,302**	$355,096,527	$324,012,452
Working capital	**$136,207,278**	$107,879,235	$ 87,228,450
Shareholders' equity	**$227,319,970**	$197,076,663	$179,135,552

In fiscal 1991, the Company reclassified items in its consolidated statements of income, and amounts for prior fiscal years were reclassified on a comparable basis. This reclassification impacted cost of sales and operating expenses but had no impact on income before income taxes or on net income.

during fiscal 1990. The Company increased its closings of unprofitable store locations with the objective of increasing earnings at a rate faster than the growth in net store additions. The Company currently plans to open approximately 160 stores and close up to approximately 40 stores for a net addition of 120 stores during fiscal 1992. New store opening and closing plans are continuously reviewed and are subject to change depending on developments in the economy and other factors.

Cost of Sales and Margin

Cost of sales increased approximately 11% ($65,512,000) in fiscal 1991 compared with fiscal 1990, and approximately 15% ($72,607,000) in fiscal 1990 compared with fiscal 1989.



These increases primarily reflected the additional sales volume in each of the years. Cost of sales, as a percentage of net sales, was 64.3% in fiscal 1991, 65.3% in fiscal 1990, and 65.8% in fiscal 1989. The decreases in the cost of sales percentages for both fiscal years 1991 and 1990 compared with the respective prior years, and the corresponding improvements in gross margin percentages to 35.7% and 34.7% from 34.2%, respectively, were due in part to opportunistic purchasing from suppliers at closeout prices, higher sales of private label merchandise, and the effect of multi-zone pricing in which different prices are used in selected markets and locations. In addition, a part of the margin improvement for fiscal 1991 was due to the sales growth in the higher margin apparel and softline departments. The improvement in the gross margin rate in fiscal 1990 compared with fiscal 1989 was also due to a reduction in the level of clearance markdowns taken during fiscal 1989. The Company examines its merchandising programs on an ongoing basis, with a goal of maximizing gross profit dollars through merchandise mix adjustments, private label products, selected price changes based on competitive market conditions, and buying improvements.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased approximately 13% ($33,342,000) in fiscal 1991 compared with fiscal 1990, and approximately 14% ($32,359,000) in fiscal 1990 compared with fiscal 1989. The increases were attributable to additional costs arising from the continued growth in the number of stores in operation, and to increased costs of operating existing stores. As a percentage of net sales, selling, general and administrative expenses were 29.3% in fiscal 1991 and fiscal 1990, and 29.6% in fiscal 1989. The percentage remained unchanged for fiscal 1991 primarily due to strong sales increases in the existing stores, offset by increased store payroll costs resulting from legislated increases in minimum wage rates. The decrease for fiscal 1990 was primarily due to strong sales increases in existing stores with comparatively smaller increases in advertising cost, store payroll and occupancy costs. Selling, general and administrative expenses were net of interest income of $891,578 in fiscal 1991, $133,287 in fiscal 1990 and $74,890 in fiscal 1989.

1988	1987	1986	1985	1984	1983	1982
$669,493,241	$560,339,004	$487,734,841	$410,088,400	$340,919,236	$264,440,407	$207,419,020
625,314,311	513,556,172	430,195,740	358,083,123	296,442,991	234,203,245	187,047,417
44,178,930	46,782,832	57,539,101	52,005,277	44,476,245	30,237,162	20,371,603
16,845,017	21,980,400	27,028,574	23,998,341	20,918,918	14,510,582	9,676,196
27,333,913	24,802,432	30,510,527	28,006,936	23,557,327	15,726,580	10,695,407
$.98	$.86	$1.06	$.98	$.83	$.55	$.38
$ 8,620,700	$ 7,835,285	$ 6,652,787	$ 5,367,729	$ 3,338,126	$ 2,651,574	$ 2,226,431
$.31	$.27	$.23	$.18⅔	$.11⅓	$.09⅓	$.08
$290,720,223	$242,005,537	$217,357,689	$177,382,720	$137,513,770	$113,211,892	$ 86,610,803
$ 78,870,930	$ 83,876,967	$ 81,232,316	$ 67,483,824	$ 58,573,995	$ 43,859,027	$ 33,532,953
$167,305,094	$159,571,825	$141,293,677	$115,678,159	$ 90,999,459	$ 69,956,528	$ 54,979,449

Income Taxes
Income taxes increased approximately 24% ($4,587,000) in fiscal 1991 compared with fiscal 1990, and approximately 39% ($5,327,000) in fiscal 1990 compared with fiscal 1989. The increases between the years were primarily due to the increases in pre-tax earnings. The effective tax rate was 36.9% in fiscal 1991, 39.7% in fiscal 1990 and 38.7% in fiscal 1989. The changes in the effective tax rates during fiscal 1991 and fiscal 1990 were primarily due to changes in state income taxes and, for fiscal 1991 compared with fiscal 1990, to a lesser extent due to tax-exempt interest income.

The Financial Accounting Standards Board has issued Statement of Financial Accounting Standards (SFAS) No. 96, Accounting for Income Taxes, and an exposure draft proposing to modify certain of its provisions, which the Company would be required to adopt by fiscal 1993. Based on the application of current Federal income tax rates, the principal impact of adopting SFAS No. 96 is expected to be a reduction of the Company's deferred tax liability by approximately $1,000,000. The impact of applying this new standard on the Company's ongoing results of operations is not expected to be material, except for the impact which would result from adjusting deferred tax balance sheet items for future changes, if any, in statutory tax rates. The Company has made no decision regarding the timing of its implementation of this new accounting standard.

Inflation
The Company is impacted by changes in the price level of its merchandise and operating expenses. Due to the nature of the Company's merchandise, sales increases have generally incorporated an inflation factor which the Company believes neither exceeds nor is significantly lower than general inflation trends. The Company attempts to combat inflation in the cost of its merchandise by shifting its source of supply to other vendors or other countries, or by changing merchandise assortments. The Company's operating expenses also tend to rise with general inflation. Specific inflation events that the Company has experienced in recent years include legislated minimum wage increases affecting fiscal 1990 through fiscal 1992 which directly or indirectly impact a substantial portion of the Company's store employees, rapid increases in medical and casualty loss/insurance costs associated with employee benefits, an increase in fiscal 1990 and fiscal 1991 in lower-priced close-out merchandise due to general economic weakness (which may become less available when economic conditions improve), and a general softening of real estate values. The Company is undertaking programs to increase labor productivity, improve safety conditions and reduce insurance claims costs as means to combat inflation.

Liquidity and Capital Resources
Working capital liquidity at August 31, 1991 and 1990, was as follows:

	1991	1990
Current assets to current liabilities	1.9 to 1	1.8 to 1
Working capital	$136,207,278	$107,879,235

The Company has consistently maintained a strong position of liquidity and has the financial strength to meet its regular operating needs, cash dividend payments and store unit expansion program. The cash flow and earnings generated from the Company's operations, together with available excess cash invested in short-term securities, are its primary source of liquidity. In addition, the Company maintains a $50,000,000 unsecured bank line of credit for short-term, seasonal financing. During fiscal 1991, the Company financed capital expenditures and the increase in merchandise inventories from cash generated by operations, including increases in vendor trade payables. The 8% increase in inventories during fiscal 1991 was due to the required inventory investment for 79 net additional stores (a 5% increase in stores at year-end), and to an increase in inventory levels in existing stores during the year. There were no long-term borrowings during fiscal 1991.

Currently planned capital expenditures for fiscal 1992 total approximately $25 million, divided approximately equally between expansion and existing facilities. Approximately one-half of planned capital expenditures in existing facilities will be related to installation of point-of-sale registers in more than half of the Company's stores. Store expansion will also require additional investment in merchandise inventories. The Company occupies most of its stores under operating leases. In addition, the Company is considering options for expanding its distribution operations and maximizing the efficiency of such operations. Capital spending plans, including store expansion, are continuously reviewed and are subject to change depending on developments in the economy and other factors. Cash flow from current operations and any necessary short-term borrowings for seasonal needs are expected to be sufficient to meet all foreseeable liquidity and capital resource needs in both the short-term and the long-term, including financing of expansion and other capital spending programs. No long-term borrowings are now expected to be required during fiscal 1992 or immediately subsequent periods.

Market Price and Dividend Information

Family Dollar's Common Stock is traded on the New York Stock Exchange under the ticker symbol FDO. At November 1, 1991 there were approximately 2,720 holders of record of the Common Stock. The accompanying tables give the high and low sales prices of the Common Stock and the dividends declared for each quarter of fiscal 1990 and 1991.

Market Prices and Dividends

1990	High	Low	Dividend
First Quarter	$13.63	$ 9.75	$.09
Second Quarter	11.00	9.63	.10
Third Quarter	13.25	10.88	.10
Fourth Quarter	15.25	10.88	.10

1991	High	Low	Dividend
First Quarter	$12.00	$ 8.88	$.10
Second Quarter	15.50	10.13	.11
Third Quarter	23.25	14.00	.11
Fourth Quarter	27.38	22.00	.11

Consolidated Statements of Income

FAMILY DOLLAR STORES, INC. AND SUBSIDIARIES

Years Ended August 31,	1991	1990	1989
Net sales	$989,345,265	$874,395,095	$756,886,681
Costs and expenses:			
Cost of sales	636,149,466	570,637,016	498,030,489
Selling, general and administrative (Notes 6 and 7)	289,469,910	256,127,757	223,768,733
	925,619,376	826,764,773	721,799,222
Income before income taxes	63,725,889	47,630,322	35,087,459
Income taxes (Note 5)	23,484,031	18,897,177	13,570,222
Net income	$ 40,241,858	$ 28,733,145	$ 21,517,237
Net income per common share (Note 9)	$1.45	$1.04	$.78
Weighted average number of shares outstanding during each year (Note 9)	27,792,672	27,741,212	27,740,133

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Balance Sheets

FAMILY DOLLAR STORES, INC. AND SUBSIDIARIES

August 31,	1991	1990
ASSETS		
Current assets:		
Cash and cash equivalents	$ 25,030,409	$ 4,622,612
Merchandise inventories	258,937,763	239,476,240
Deferred income taxes (Note 5)	7,139,460	4,932,381
Prepayments and other current assets	2,620,899	2,685,248
Total current assets	293,728,531	251,716,481
Property and equipment (Note 2)	103,234,335	102,173,901
Other assets	2,308,436	1,206,145
	$399,271,302	$355,096,527
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Note payable (Note 3)	$ –	$ 12,200,000
Accounts payable	118,900,354	102,377,024
Accrued liabilities (Note 4)	34,742,698	25,192,672
Income taxes (Note 5)	3,878,201	4,067,550
Total current liabilities	157,521,253	143,837,246
Deferred income taxes (Note 5)	14,430,079	14,182,618
Commitments (Note 7)		
Shareholders' equity (Note 8):		
Preferred stock, $1 par; authorized and unissued 500,000 shares		
Common stock, $.10 par; authorized 120,000,000 shares	2,960,658	2,946,947
Capital in excess of par	8,904,158	6,955,569
Retained earnings	226,804,422	198,523,415
	238,669,238	208,425,931
Less common stock held in treasury, at cost	11,349,268	11,349,268
	227,319,970	197,076,663
	$399,271,302	$355,096,527

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Shareholders' Equity

FAMILY DOLLAR STORES, INC. AND SUBSIDIARIES

Years Ended August 31, 1991, 1990 and 1989	Common stock	Capital in excess of par	Retained earnings	Treasury stock
Balance, September 1, 1988 (29,465,212 shares common stock; 1,726,411 shares treasury stock)	$2,946,521	$6,906,456	$168,801,385	$11,349,268
Net income for the year			21,517,237	
Issuance of 1,600 common shares under employee stock option plan, including tax benefits (Note 8)	160	22,165		
Less dividends on common stock, $.35 per share			(9,709,104)	
Balance, August 31, 1989 (29,466,812 shares common stock; 1,726,411 shares treasury stock)	2,946,681	6,928,621	180,609,518	11,349,268
Net income for the year			28,733,145	
Issuance of 2,660 common shares under employee stock option plan, including tax benefits (Note 8)	266	26,948		
Less dividends on common stock, $.39 per share			(10,819,248)	
Balance, August 31, 1990 (29,469,472 shares common stock; 1,726,411 shares treasury stock)	2,946,947	6,955,569	198,523,415	11,349,268
Net income for the year			40,241,858	
Issuance of 137,110 common shares under employee stock option plan, including tax benefits (Note 8)	13,711	1,948,589		
Less dividends on common stock, $.43 per share			(11,960,851)	
Balance, August 31, 1991 (29,606,582 shares common stock; 1,726,411 shares treasury stock)	$2,960,658	$8,904,158	$226,804,422	$11,349,268

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Cash Flows

FAMILY DOLLAR STORES, INC. AND SUBSIDIARIES

Years Ended August 31,	1991	1990	1989
Cash flows from operating activities:			
Net income	$ 40,241,858	$ 28,733,145	$ 21,517,237
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	13,080,381	12,680,031	11,966,289
Deferred income taxes	(1,959,618)	(1,006,805)	2,028,265
Loss (gain) on disposition of property and equipment	377,043	88,947	(42,303)
Increase in inventories	(19,461,523)	(27,120,845)	(33,487,937)
Decrease in prepayments and other current assets	64,349	754,271	532,593
(Increase) decrease in other assets	(1,102,291)	115,243	(4,765)
Increase in accounts payable and accrued liabilities	25,780,020	9,556,404	24,542,998
Increase (decrease) in income taxes payable	(189,349)	4,067,550	(489,861)
Decrease in noncurrent income taxes payable	–	(431,533)	(297,517)
	56,830,870	27,436,408	26,264,999
Cash flows from investing activities:			
Capital expenditures	(14,840,920)	(12,477,254)	(18,296,022)
Proceeds from dispositions of property and equipment	323,062	1,261,373	472,705
	(14,517,858)	(11,215,881)	(17,823,317)
Cash flows from financing activities:			
Net change in borrowings under bank line of credit	(12,200,000)	(1,800,000)	(5,300,000)
Exercise of employee stock options, including tax benefits	1,962,300	27,214	22,325
Payment of dividends	(11,667,515)	(10,541,572)	(9,431,628)
	(21,905,215)	(12,314,358)	(14,709,303)
Net increase (decrease) in cash and cash equivalents	20,407,797	3,906,169	(6,267,621)
Cash and cash equivalents at beginning of year	4,622,612	716,443	6,984,064
Cash and cash equivalents at end of year	$ 25,030,409	$ 4,622,612	$ 716,443
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	$ 411,811	$ 1,301,385	$ 1,755,185
Income taxes	25,213,008	15,854,788	12,877,824

The accompanying notes are an integral part of the consolidated financial statements.

Notes to Consolidated Financial Statements

FAMILY DOLLAR STORES, INC. AND SUBSIDIARIES
YEARS ENDED AUGUST 31, 1991, 1990 AND 1989

1. Description of business and summary of significant accounting policies:

Description of business:
The Company operates a chain of self-service retail discount stores.

Principles of consolidation:
The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. All significant intercompany balances and transactions have been eliminated.

Cash equivalents:
The Company considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

Merchandise inventories:
Inventories are valued using retail prices less markon percentages, which approximates the lower of first-in, first-out (FIFO) cost or market.

Property and equipment and depreciation:
Property and equipment is stated at cost. Depreciation for financial reporting purposes is being provided principally by the straight-line method over the estimated useful lives of the related assets, and by straight-line and accelerated methods for income tax reporting purposes.

Pre-opening costs:
The Company charges pre-opening costs against operating results when incurred.

Reclassification:
In fiscal 1991, the Company reclassified items in its consolidated financial statements, primarily to better conform with retail industry practices. Amounts for prior fiscal years have been reclassified on a comparable basis to the current presentation. This reclassification had no impact on reported income before income taxes or on net income.

2. Property and equipment:

	August 31, 1991	August 31, 1990
Buildings	**$ 42,845,046**	$ 42,211,115
Furniture, fixtures and equipment	**94,305,089**	84,199,509
Transportation equipment	**13,118,987**	12,640,724
Leasehold improvements	**13,940,971**	13,196,737
	164,210,093	152,248,085
Less accumulated depreciation and amortization	**69,868,975**	58,970,023
	94,341,118	93,278,062
Land	**8,893,217**	8,895,839
	$103,234,335	$102,173,901

3. Line of credit and short-term borrowings:

The Company has an unsecured bank line of credit for short-term revolving borrowings of up to $50,000,000 which expires at February 28, 1993. These borrowings are at a variable interest rate equal to the lower of the bank's prime interest rate or a rate based on short-term market interest rates. The Company may convert up to $30,000,000 of the line of credit into either a five, seven, or nine year term loan, at the bank's variable prime rate.

Interest expense, borrowings outstanding and interest rates under the line of credit for each of the three years in the period ended August 31, 1991, were as follows:

	1991	1990	1989
Interest expense	**$ 408,727**	$ 1,064,852	$ 1,658,346
Average borrowings outstanding	**$ 4,595,000**	$10,774,000	$15,653,000
Maximum month-end outstanding	**$26,200,000**	$34,900,000	$30,300,000
Interest rate at year-end	**6.6%**	9.1%	10.1%
Daily weighted average interest rates	**8.7%**	9.9%	10.4%

4. Accrued liabilities:

	August 31, 1991	August 31, 1990
Payroll	**$10,331,515**	$ 9,662,755
Deferred business insurance premiums	**11,843,076**	6,138,780
Taxes other than income taxes	**8,754,595**	6,674,910
Other	**3,813,512**	2,716,227
	$34,742,698	$25,192,672

5. Income taxes:

The provisions for income taxes were as follows:

	1991	1990	1989
Current:			
Federal	**$21,907,460**	$15,802,894	$ 8,936,910
State	**3,536,189**	4,101,088	2,605,047
	25,443,649	19,903,982	11,541,957
Deferred:			
Federal	**(1,895,991)**	(834,911)	1,965,878
State	**(63,627)**	(171,894)	62,387
	(1,959,618)	(1,006,805)	2,028,265
	$23,484,031	$18,897,177	$13,570,222

Notes to Consolidated Financial Statements (Continued)

The deferred provision for income taxes results from timing differences in the recognition of revenue and expense for tax and financial statement reporting purposes. The sources of these differences in each of the three years in the period ended August 31, 1991, were as follows:

	1991	1990	1989
Excess of tax over book depreciation	**$ 247,461**	$ 1,472,867	$2,728,675
Excess of tax over book valuation of inventory	**(82,904)**	(592,159)	(700,410)
Deferred business insurance premiums accrued but not currently deductible	**(887,016)**	(1,170,013)	–
Deferred incentive compensation (Note 6)	**(108,902)**	(717,500)	–
Closed store lease liabilities accrued but not currently deductible	**(945,016)**	–	–
Other	**(183,241)**	–	–
	$(1,959,618)	$(1,006,805)	$2,028,265

The following tables summarize the components of income tax expense:

	1991		1990		1989	
	Income tax expense	**% of pre-tax income**	Income tax expense	% of pre-tax income	Income tax expense	% of pre-tax income
Computed "expected" Federal income tax	**$21,666,802**	**34.0**	$16,194,310	34.0	$11,929,736	34.0
State income taxes, net of Federal income tax benefit	**2,291,891**	**3.6**	2,593,268	5.5	1,760,507	5.0
Other	**(474,662)**	**(.7)**	109,599	0.2	(120,021)	(.3)
Actual income tax expense	**$23,484,031**	**36.9**	$18,897,177	39.7	$13,570,222	38.7

6. Employee benefit plans:

Incentive compensation plan:

The Company has an incentive profit-sharing plan whereby, at the discretion of the Board of Directors, the Company may pay certain employees and officers an aggregate amount not to exceed 5% of the Company's consolidated income before income taxes. Expenses under the profit-sharing plan were $1,995,379 in fiscal 1991, $2,061,393 in fiscal 1990, and none in fiscal 1989.

Compensation deferral plan:

The Company has a voluntary compensation deferral plan, under Section 401(k) of the Internal Revenue Code, available to all eligible employees. At the discretion of the Board of Directors, the Company makes contributions to the plan which are allocated to participants, and in which they become vested, in accordance with formulas and schedules defined by the plan. Company expenses for contributions to the plan were $606,894 in fiscal 1991, $490,674 in fiscal 1990, and $361,477 in fiscal 1989.

7. Commitments:

Operating leases:

Except for its executive offices and primary distribution center, the Company generally conducts its operations from leased facilities. Generally, store real estate leases are for initial terms of from five to 15 years with multiple renewal options for additional five year periods. Certain leases provide for contingent rental payments based upon a percentage of store sales.

Rental expenses on all operating leases, both cancellable and non-cancellable, for each of the three years in the period ended August 31, 1991, were as follows:

	1991	1990	1989
Minimum rentals, net of minor sublease rentals	**$35,015,356**	$31,554,686	$28,098,794
Contingent rentals	**601,308**	490,913	360,557
	$35,616,664	$32,045,599	$28,459,351

Future minimum rental payments required under operating leases that have initial or remaining non-cancellable lease terms in excess of one year as of August 31, 1991, were as follows:

Year Ending August 31,	Minimum Rental
1992	$ 33,929,499
1993	30,939,341
1994	25,697,647
1995	19,748,514
1996	13,410,690
Thereafter	26,137,965
Total minimum payments required	$149,863,656

8. Employee stock option plans:

The Company's non-qualified stock option plans provide for the granting of options to key employees to purchase shares of common stock at prices not less than fair market value on the date of the grant. Options are exercisable to the extent of 40% after the second anniversary of the grant, an additional 30% annually on a cumulative basis, and expire five years from the date of the grant. Options to purchase 129,550 shares of common stock were exercisable at August 31, 1991.

	Number of options outstanding	Option price per share
Common stock options, September 1, 1989	564,045	$ 7.75-25.75
Granted	153,650	10.25-12.25
Exercised	(2,660)	8.75- 9.00
Cancelled	(94,860)	
Common stock options, August 31, 1990	620,175	7.75-25.75
Granted	138,550	11.25-26.00
Exercised	(137,110)	7.75-17.50
Cancelled	(56,310)	
Common stock options, August 31, 1991	565,305	8.50-26.00

At August 31, 1991, there were 20,650 shares available for option under the plans, and 146,650 shares were available for option at August 31, 1990.

9. Earnings per share:

Net income per common share is based on the weighted average number of shares of common stock outstanding during each year. Potential exercise of outstanding stock options do not have a material effect on earnings per common share.

10. Unaudited summaries of quarterly results:

	Nov '90 First Quarter	Feb Second Quarter	May Third Quarter	Aug 31 91 Fourth Quarter
	(In thousands, except per share data)			
1991				
Net sales	$224,715	$257,212	$250,129	$257,289
Gross profit	81,628	88,242	93,752	89,574
Net income	7,780	11,988	12,221	8,253
Net income per common share	$.28	$.43	$.44	$.30
1990				
Net sales	$206,783	$227,426	$217,457	$222,729
Gross profit	72,240	76,174	77,430	77,914
Net income	5,986	9,276	7,782	5,689
Net income per common share	$.22	$.33	$.28	$.21
1989				
Net sales	$171,771	$195,494	$187,642	$201,980
Gross profit	62,605	66,048	63,841	66,362
Net income	5,420	7,768	4,716	3,613
Net income per common share	$.20	$.28	$.17	$.13

Change of Independent Accountants

On November 21, 1990, Laventhol & Horwath filed for bankruptcy and discontinued its audit and accounting services. The Company engaged Price Waterhouse as its new independent accountants on February 26, 1991.

The audit report of Laventhol & Horwath dated October 19, 1990, has been reproduced from the Company's 1990 Annual Report.

Report of Independent Accountants

To the Board of Directors and Shareholders
of Family Dollar Stores, Inc.

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, of shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Family Dollar Stores, Inc. and its subsidiaries at August 31, 1991 and the results of their operations and their cash flows for the year then ended in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these financial statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the opinion expressed above.

Price Waterhouse

October 16, 1991
Charlotte, North Carolina

Independent Auditors' Report

Board of Directors and Shareholders
Family Dollar Stores, Inc.
Charlotte, North Carolina

We have audited the accompanying consolidated balance sheets of Family Dollar Stores, Inc. and subsidiaries as of August 31, 1990 and 1989, and the related statements of income, shareholders' equity and cash flows for each of the three years in the period ended August 31, 1990. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Family Dollar Stores, Inc. and subsidiaries at August 31, 1990 and 1989, and the consolidated results of their operations and their cash flows for each of the three years in the period ended August 31, 1990, in conformity with generally accepted accounting principles.

Laventhol & Horwath
LAVENTHOL & HORWATH
Certified Public Accountants

October 19, 1990
Charlotte, North Carolina

Corporate Information

FAMILY DOLLAR STORES, INC. AND SUBSIDIARIES

Directors and Officers

Leon Levine
Chairman of the Board, Treasurer and Director

Peter J. Hayes
President and Director

Thomas R. Payne
Director, Special Counsel– Kennedy Covington Lobdell & Hickman Attorneys at Law

Mark R. Bernstein
Director, Partner– Parker, Poe, Adams & Bernstein Attorneys at Law

George R. Mahoney, Jr.
Executive Vice President–General Counsel, Secretary and Director

Richard H. Griner
Senior Vice President–Operations

C. Scott Litten
Senior Vice President–Finance

John D. Reier
Senior Vice President– Merchandising and Advertising

Albert S. Rorie
Senior Vice President–Data Processing

Stephen G. Simms
Senior Vice President– Real Estate and Construction

Terry A. Cozort
Vice President–Human Resources

Owen R. Humphrey
Vice President– Distribution and Transportation

Robert S. Parker
Vice President–Loss Prevention

Edgar L. Paxton
Vice President– Advertising and Sales Promotion

C. Martin Sowers
Vice President–Controller

Phillip W. Thompson
Vice President–Store Operations

Daylon W. Powell
Assistant Treasurer

Janice B. Burris
Assistant Secretary

Shareholder Information

Annual Meeting
The Annual Meeting of Shareholders will be held at 2:00 p.m. at the Company's Executive Offices at 10401 Old Monroe Road, Matthews, North Carolina, on Thursday, January 16, 1992.

Executive Offices
Post Office Box 1017
Charlotte, North Carolina 28201-1017
Telephone (704) 847-6961

Shares Listed
New York Stock Exchange
Ticker Symbol: FDO

Independent Certified Public Accountants
Price Waterhouse
Charlotte, North Carolina 28280

Special Counsel
Parker, Poe, Adams & Bernstein
Charlotte, North Carolina 28244

Transfer Agent and Registrar
Manufacturers Hanover Trust Company
New York, New York 10001

Form 10-K
A copy of Form 10-K filed by the Company with the Securities and Exchange Commission for the fiscal year ended August 31, 1991, may be obtained by shareholders without charge upon written request to Janice B. Burris, Assistant Secretary, at the Executive Offices.

FAMILY DOLLAR

10401 Old Monroe Road
Post Office Box 1017
Charlotte, North Carolina 28201-1017